MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BMB3024 – MONEY AND BANKING
(All sections / Groups)

14 OCTOBER 2017
2.30 p.m. to 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **THREE (3)** printed pages of **TWO (2)** sections, **SECTION A** and **SECTION B**. Both sections consist of **TWO (2)** questions each respectively.
2. Marks are shown for each question.
3. Write all your answers in the answer booklet provided.
4. Answer **ALL** questions.

Answer <u>ALL</u> questions.

<u>Section A: Case-study (50 marks)</u>

<u>Question One (25 marks)</u>
Read the short passage below and answer the following questions.

Monetary policy in 2016 was focused on ensuring monetary conditions remained supportive for sustainable growth of the domestic economy with price stability. This was against a challenging policy environment characterised by material shifts in the balance of risks to the domestic economic outlook and significant volatility in the financial markets. In particular, the risks to domestic growth increasingly shifted to the downside by mid-year, emanating from a confluence of external developments including the weaker-than-expected global growth momentum and policy uncertainties in the US and PR China. The challenging external environment was further exacerbated by the uncertainties surrounding the outcome of the UK's EU referendum (Brexit) and the increase in global geopolitical risks. Against this downside shift in the risks to growth, the Monetary Policy Committee (MPC) adjusted the degree of monetary accommodativeness by reducing the Overnight Policy Rate (OPR) by 25 basis points to 3.00% on 13 July 2016.

Following the OPR reduction in July, there was an immediate and complete pass-through to interbank rates, with the 3-month KLIBOR declining by 25 basis points the next day. This consequently led to lower lending rates. The weighted average Base Rate (BR) of commercial banks declined by 22 basis points by end-August. Correspondingly, the weighted average lending rate (ALR) on outstanding loans was lower by 15 basis points in the same period. At the level of 3.00%, the OPR was considered to be consistent with the intended policy stance for the growth and inflation outlook.

Towards mid-year, there were increasing signs of moderating global growth momentum given the cyclical and structural economic weaknesses that continued to weigh on growth in the major economies, leading to more moderate growth in Asia amid persistent weakness in the external sector. The MPC was also concerned that global growth prospects had become more vulnerable to increased downside risks, in view of the potential repercussions of Brexit, renewed volatility in global oil prices, and rising geopolitical risks. On the domestic front, there were concerns that moderating economic sentiments of businesses and households could weigh on the strength of private consumption and investment. At the same time, the inflation trajectory saw a moderating trend after peaking in the first quarter, as anticipated.

Since the adjustment in July, the MPC kept the policy rate unchanged for the rest of the year. While the baseline estimate was for a slight improvement in global growth in 2017, the downside risks remained elevated following uncertainties over the growth momentum, policy shifts in major economies, unresolved issues post-Brexit and policy uncertainties arising from the outcome of the US presidential election in November.

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Global financial markets remained susceptible to heightened volatility amid setbacks and shifts in investor sentiments.

Source : extracted from Bank Negara Malaysia Annual Report 2016.

Base on the passage above, answer the following questions.
(a) Explain why the Monetary Policy Committee (MPC) of the Central Bank of Malaysia (BNM) reduce the Overnight Policy Rate (OPR) by 25 basis points to 3.00% on 13 July 2016.

(8 marks)
(b) Explain how the reduction of the OPR affect the economy of Malaysia.   (5 marks)
(c) Besides implementing the monetary policy, discuss **four (4)** other functions of the Central Bank of Malaysia.

(12 marks)

Question Two (25 marks)
Read the short passage below and answer the following questions.
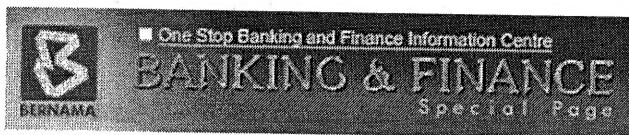
Bank Islam Wins 'Best Islamic ESG Bank' Award
Last update: 13/07/2017

KUALA LUMPUR, July 13 (Bernama) -- Bank Islam Malaysia Bhd has won the Best Islamic Environmental, Social and Governance (ESG) Bank' at the recent The Asset Triple A Islamic Finance Awards 2017 here. In a statement today, Bank Islam said, notable for being the first of its kind ever awarded by The Asset publication, the award emphasised the ESG components guided by syariah principles. "It is a great honour to be recognised by The Asset for the work that we have done, and how we set about ensuring that what we do is always right by our stakeholders and of great benefits to them", Chief Executive Officer, Khairul Kamarudin, said in a statement today.

The bank said the award reflected its commitment towards becoming a responsible financial entity, while upholding its social and environmental responsibilities. "Among other things, the bank supports infrastructure projects which involves planning and securing sustainable resources for the country, like environmentally-friendly waste management businesses. "It also provides green financing to deserving projects such as hydroelectric and solar farms," it said.

The bank also won the 'Best Islamic FinTech Deal' award for financing the Koperasi Kakitangan Kumpulan BIMB Holdings Malaysia Bhd.

FinTech stands for Financial Technologies. It is technologies used and applied in the financial services sector, chiefly used by financial institutions themselves on the back end of their businesses. According to Forbes, more and more FinTech is coming to represent technologies that are disrupting traditional financial services, including mobile payments, money transfers, loans, fundraising, and asset management. FinTech like crowdfunding, mobile payments, and money transfer services is revolutionizing the way small businesses start up, accept payments, and go global, and they are making it easier than ever to start and run a business.

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The Asset Triple A Islamic Finance Awards, organised by The Asset publication, is one of the premier awards for Islamic Finance in Asia's financial industry. The awards, with its meticulous approach in selecting the best Islamic banks and houses and transactions in various Asian countries, remain as a benchmark in the industry.

Source : http://finance.bernama.com/news.php?id=1372245 and
https://www.forbes.com/sites/bernardmarr/2017/02/10/a-complete-beginners-guide-to-fintech-in-2017/#7f78eeb23340

Based on the passage above, answer the following questions.
(a) Discuss why Bank Islam Malaysia was awarded the Best Islamic ESG Bank among Asian banks.   (4 marks)
(a) Discuss **four (4)** reasons to justify how Islamic banking is part of financial innovation in the Malaysian banking scene.   (12 marks)
(b) What are banks' responses to financial innovation in Malaysia?   (9 marks)

Section B: Short Questions (50 marks)

Question One (25 marks)
(a) There was concern of economic uncertainty in Britain due to its recent decision on Brexit. Based on the demand for domestic assets, graphically show how economic uncertainty may affect the performance of British pound against USD.   (6 marks)
(b) Explain in detail **four (4)** factors that will cause Ringgit Malaysia to depreciate against the Singapore dollar in the long run.   (10 marks)
(c) Explain the **three (3)** types of exchange rate regimes in the international financial system.   (3 marks)
(d) Explain **two (2)** key factors that trigger speculative attacks leading to currency crisis in emerging market like Malaysia?   (6 marks)

Question Two (25 marks)
(a) The summation of currency (C) and demand deposits (D) is equivalent to M1. The central bank's monetary base, MB is equivalent to currency (C) plus reserves (R). Suppose R is the amount of reserves, RR is required reserves, ER is excess reserves, r is the required reserve ratio, e is the excess reserves ratio and c is the currency ratio. If $R = RR + ER$, $RR = r \times D$, $ER = e \times D$, $C = c \times D$, derive the money multiplier, m for M1.   (7 marks)
(b) Explain why the simple deposit multiplier overstates the money multiplier you computed in (a).   (4 marks)
(c) Based on the Keynesian theory of money demand, explain how the motives of holding money determine money demand.   (9 marks)
(d) What are the **two** reasons Keynes thought velocity could NOT be treated as a constant?   (5 marks)

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